

Teacher Lesson Plan

Theme 2: Taxes in U.S. History
Lesson 6: Tax Reform in the 1960s and 1980s

Time Frame

One to three class periods

Curriculum Area(s)

- History/Social Studies
- Civics/Government
- Economics
- Technology

Purpose

To help students understand the reasons for the Tax Reform Acts of 1969 and 1986 and the effects of the reforms on tax revenues, taxpayers' habits, and the U.S. economy

Objectives

Students will be able to

- explain the content, purpose, and impact of the Tax Reform Acts of 1969 and 1986

Materials

Online

Student Lesson—Tax Reform in the 1960s and 1980s

Activity 1: Tax Reforms of 1969 and 1986

Activity 2: How Much Did We Pay

Activity 3: Tax Your Memory

Assessment—Tax Reform in the 1960s and 1980s

Assessment Solutions—Tax Reform in the 1960s and 1980s

Print (PDF)

Teacher Lesson Plan

Info Sheet 1—Tax Reform Timeline 1960s–1980s

Info Sheet 2—Second Inaugural Address of Ronald Reagan (1985)

Worksheet—Tax Reform Acts of 1969 and 1986

Worksheet Solutions—Tax Reform Acts of 1969 and 1986

Assessment—Tax Reform in the 1960s and 1980s

Assessment Solutions—Tax Reform in the 1960s and 1980s

Complete Lesson Pack

Web Links

Joint Economic Committee Report (1996) <http://www.house.gov/jec/>

Background

The Tax Code Adjusted

Since the 1940s, the **tax code** has been adjusted many times to create fairness to taxpayers and to generate revenue for the government. **Tax deductions**, **tax exemptions**, and **tax credits** were used to protect different income groups and businesses during times of economic instability. The downside for the government was the loss of tax revenue.

For many years, steady economic productivity and **inflation** helped the government weather the loss of tax revenue. Inflation pushed taxpayers into increasingly higher tax brackets. People in higher tax brackets paid higher tax rates on their incomes and investments and provided the government with needed money.

The government saw no need to change the basic tax structure or the tax rates as long as inflation and economic productivity provided revenues lost to tax credits and exemptions. On those occasions when revenues threatened to fall short—creating a **deficit**—the government almost always responded by cutting its spending.

Tax Reform Act of 1969

The 1960s saw a faltering economy after a long postwar economic boom. By 1969, it was clear that the tax code needed adjustment. For years, large corporations and the wealthy had used loopholes to avoid paying some taxes. The Tax Reform Act of 1969 closed some loopholes and required high-income earners and corporations to pay their fair share of taxes. This act also offered **tax cuts** that lowered individual tax rates and increased the number of tax exemptions for lower-income groups. Overall, about \$15 billion in tax revenue was lost. The government countered this loss by reducing its spending.

Tax Reform Act of 1986

By the mid-1980s, the U.S. tax code was long and complicated. Some wealthy citizens used loopholes to shelter their money and avoid paying some taxes. The economy was in a downturn. The Reagan administration hoped to help the economy by introducing tax cuts and simplifying the tax structure. The changes made were the most comprehensive in U.S. history. Now there were only two tax brackets, covering a broader range of incomes. Tax rate reductions lowered the tax rate for higher incomes to 28 percent, down from the previous 50 percent. The government hoped this strategy would encourage the wealthy to pay their taxes and invest their remaining money in a way that would eventually benefit all taxpayers. This strategy was known as “supply-side economics.”

The Tax Reform Act of 1986 was not enough to offset debt resulting from Cold War spending and the economic downturn. The government operated on a deficit as the national debt rocketed from \$900 billion in 1980 to \$2 trillion in 1988.

Key Terms

deficit—The result of the government taking in less money than it spends.

inflation—The simultaneous increase of consumer prices and decrease in the value of money and credit.

tax code—The official body of tax laws and regulations.

tax credit—A dollar-for-dollar reduction in the tax. Can be deducted directly from taxes owed.

tax cut—A reduction in the amount of taxes taken by the government.

Understanding Taxes

tax deduction—An amount (often a personal or business expense) that reduces income subject to tax.

tax exemption—A part of a person’s income on which no tax is imposed.

Opening the Lesson

Explain that tax credits, tax cuts, tax deductions, and tax exemptions are tools used to make taxes fair. The result is a complicated tax code, or tax laws. The goal of tax reform is to generate revenue and make the process of taxation fair to as many taxpayers as possible. Present the background information using Info Sheet 1—Tax Reform Time Line 1960s–1980s.

Developing the Lesson

Draw a circle on the board, and suggest to students that taxes tend to follow a circular pattern. At the top of the circle, write revenue and fairness. Trace your finger around the circle as you explain that in each cycle, the government strives to generate income and be fair to taxpayers at the same time.

Factors such as economic downturns, war, and inflation, cause legislators to adjust the tax system to continue bringing in needed money. As a result, taxation often becomes less fair—the wealthy are taxed too much and respond by finding ways to shelter, or safeguard, their money. Then lower-income groups pay more taxes than they can afford.

After a long cycle, tax reforms are introduced to create fairness again. Ask students whether they agree with this model. Have students think of different models to illustrate the cycles of taxation.

Online Activities

Direct students to Student Lesson—Tax Reform in the 1960s and 1980s.

Have students complete one or more of the following activities:

- Activity 1: Tax Reforms of 1969 and 1986—Complete a cause and effect chart for the Tax Reform Acts of 1969 and 1986.
- Activity 2: How Much Did We Pay?—Take a virtual field trip to find out how much of taxpayers’ incomes was paid in taxes in the 1980s, a time of tax reform.
- Activity 3: Tax Your Memory—Play a game of memory and concentration.

Print Activity

Print Worksheet—Tax Reform Acts of 1969 and 1986, and distribute it to students.

Worksheet Solutions—Tax Reform Acts of 1969 and 1986

Classroom Activity

Have students research how members of Congress put together the 1986 Tax Reform Act.

Ask Students:

- Who were the creators, and what parties or interests did they represent? What compromises did they make?

Have students work in groups to research the role politics played in the formation of this tax legislation. Students should notice how both political parties were keen to take credit for reducing tax rates and simplifying the tax code.

- Have students read Info Sheet 2—Second Inaugural Address of Ronald Reagan (1985). What were the president’s ideas about taxation and federal spending?
Students should understand that Reagan thought that the tax code should be made simpler and less aggressive. He supported the idea of allowing people to spend and invest their own money.
- How did Reagan sound and what language did he use in his speech?
Students should notice that Reagan strives to sound strong, confident, and reassuring.

Concluding the Lesson

Ask students:

- What were the goals of the Tax Reform Acts of 1969 and 1986?
to make taxation more fair; to encourage the wealthy to pay taxes and to ease the tax burdens of lower-income groups; to generate more tax revenue for the government

Online Assessment

Direct students to complete [Assessment—Tax Reform in the 1960s and 1980s](#) for this lesson.
[Assessment Solutions—Tax Reform in the 1960s and 1980s](#)

Print Assessment

Print [Assessment—Tax Reform in the 1960s and 1980s](#), and have students complete it on paper.

[Assessment Solutions—Tax Reform in the 1960s and 1980s](#)

Links

For more information on tax deductions and credits, see:

[How of Taxes: Module 8—Tax Credit For Child and Dependent care Expenses](#)

[How of Taxes: Module 9—Earned Income Credit](#)

[Theme 4, Lesson 3](#)

[Theme 4, Lesson 4](#)

For more information on the history of the IRS including the 1990s and today, visit

[Theme 6, Lesson 1](#)